Dominion Energy Southeast Services, Inc.
Legal Regulatory Department
400 Otarre Parkway, Cayce, SC 29033
Mailing Address:
220 Operation Way, MC C222, Cayce SC 29033
DominionEnergy.com

Dominion Energy

July 3, 2019

VIA ELECTRONIC FILING

The Honorable Jocelyn G. Boyd
Chief Clerk/Administrator
Public Service Commission of South Carolina
101 Executive Center Drive
Columbia, South Carolina 29210

Re: Petition of Dominion Energy South Carolina, Inc. for an Accounting Order Related to the Installation of Advanced Metering Infrastructure; Docket No. 2019-___-E/G

Dear Ms. Boyd:

Enclosed for filing, on behalf of Dominion Energy South Carolina, Inc. ("DESC"), is a petition for an accounting order related to the installation of advanced metering infrastructure.

By copy of this letter, we are serving the South Carolina Office of Regulatory Staff with a copy of the Company's petition.

If you have any questions, please advise.

Very truly yours,

Matthew W. Gissendanner

Matthew W. Gissendanner

MWG/kms
Enclosure

cc: Jeffrey M. Nelson, Esquire
Dawn Hipp
(all via electronic mail and First Class U.S. Mail w/ enclosure)

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2019 - ___ - E/G

IN RE:

Petition of Dominion Energy South Carolina, Inc.) for an Accounting Order Related to the Installation) of Advanced Metering Infrastructure)	PETITION OF DOMINION ENERGY SOUTH CAROLINA, INC. FOR AN ACCOUNTING ORDER

Dominion Energy South Carolina, Inc. ("DESC" or the "Company") hereby files with the Public Service Commission of South Carolina ("Commission") this petition, pursuant to S.C. Code Ann. § 58-5-220 (2015), S.C. Code Ann. § 58-27-1540 (2015), and S.C. Code Ann. Reg. 103-825 (2012), seeking an accounting order for regulatory and financial accounting purposes authorizing DESC to (i) defer as a regulatory asset the incremental depreciation expense, property taxes and amortization of implementation costs of associated software incurred by DESC in connection with the installation of Advanced Metering Infrastructure ("AMI") for its retail electric customers, (ii) record carrying costs on the balance in the deferred cost regulatory asset at its embedded cost of long-term debt, (iii) reclassify the carrying value of the existing electric meters being replaced to an electric unrecovered plant regulatory asset account, to be included in the Company's rate base consistent with the current treatment for this investment, upon their retirement, (iv) reclassify the carrying value of the existing gas meter Encoder Receiver Transmitters ("ERT") devices being replaced to a gas unrecovered plant regulatory asset account, to be included in the Company's rate base consistent with the current treatment for this investment, upon their retirement and (v) amortize the unrecovered plant regulatory asset accounts over the estimated composite remaining lives of the replaced meters and ERT devices, respectively.

The request for relief set forth herein will not involve a change to any of DESC's retail electric or gas rates or prices, or require any change in any Commission rule, regulation or policy. In addition, the issuance of the requested accounting order will not prejudice the right of any party to address this issue in a subsequent general rate case proceeding. Accordingly, neither notice to the public at-large, nor a hearing is required regarding this Petition.

In support of this Petition, the Company would respectfully show unto this Commission the following key facts and would request of and apply to the Commission for the following relief:

1. DESC is a corporation organized and existing under the laws of the State of South Carolina. Further, DESC is, in part, an electric utility engaged in the generation, transmission, distribution, and sale of electricity to the public for consumption. DESC is also, in part, a natural gas distribution utility engaged in the distribution and sale of natural gas to the public for consumption. DESC's retail electric and gas distribution operations are subject to the jurisdiction of the Commission pursuant to the provisions of Chapters 5 and 27 of Title 58 of the South Carolina Code.

2. Corporate legal counsel for DESC in this proceeding are as follows:

K. Chad Burgess, Esquire
Matthew W. Gissendanner, Esquire
Dominion Energy Southeast Services, Inc.
Mail Code C222
220 Operation Way
Cayce, SC 29033
(803) 217-8141 (KCB)
(803) 217-5359 (MWG)
chad.burgess@scana.com
matthew.gissendanner@scana.com

All correspondence and any other matters relative to this proceeding should be addressed to the Company's authorized representatives as stated hereinabove.

3. DESC operates an integrated electric utility system that serves over 736,000 customers in 24 counties covering nearly 16,000 square miles in central, southern and southwestern portions of

South Carolina. DESC's retail electric service territory includes the metropolitan areas of Charleston, Columbia, Beaufort, and Aiken, as well as many other smaller cities, towns and rural areas in South Carolina. In addition, DESC serves over 384,000 gas customers in all or part of 35 counties in South Carolina covering nearly 22,000 square miles.

4. AMI is an integrated system of smart meters, communications networks, and data management systems that enables two-way communication between a utility and its customers. Beginning in 2019, the Company plans to initiate its campaign to install AMI for residential and commercial electric customers and expects the AMI technology to provide efficiencies as well as the foundation for programs that will enhance the customer service experience.

5. The efficiencies the Company expects from AMI are shorter outage restoration response times, reduction of truck rolls to read, disconnect and reconnect meters, lower contact center volume, enhanced employee and customer safety, and theft detection through tamper alerts and analytics. In addition to shorter outage restoration response times, AMI will also provide the benefit of more efficient reporting to interested parties after major storm events such as hurricanes and winter ice storms.

6. The installation of AMI will enable the company to develop and provide programs that give customers the opportunity to take greater control over their energy usage, budgeting and experience through enhanced programs that allow the customer to (i) control the due date of their bill, (ii) interact with web-based energy usage analyzers, (iii) receive alerts based on energy usage for customer determined targets/thresholds, (iv) place same day or real time customer service requests, and (v) receive enhanced communications during outages. The Company also expects that AMI will enhance the Company's operations through more precise system planning and grid optimization, predictive maintenance and rate modeling.

7. The installation of AMI represents a significant capital investment for the Company. As such, DESC anticipates phasing the AMI installation over several years. When complete, DESC expects to have installed over 760,000 electric AMI meters at a cost of approximately $98 million. Under Generally Accepted Accounting Principles ("GAAP") and in accordance with the Federal Energy Regulatory Commission's Uniform System of Accounts (as adopted by this Commission), the cost of assets such as AMI are recorded on the Company's balance sheet as fixed assets and charged to expense over the period in which these assets provide utility service and contribute to the earnings process. This systematic and rational allocation of an asset's cost over its service life and period of benefit is referred to as depreciation. Depreciation allows for the matching of the expense associated with a fixed asset to the revenue that the Company recognizes as a result of utilizing the asset to provide service. Under GAAP, this is referred to as the matching principle and is a fundamental concept in the accounting model. As part of electric utility rate making, annual depreciation expense is included within the utility's Commission approved base rates. The amount of annual depreciation expense that DESC expects to incur after installation of AMI is not currently included within DESC's existing retail electric base rates. Therefore, it is not possible for the Company to "match" this expense with revenue to be collected. With such a mismatch of expense to revenue, this event is a fundamental departure from the matching principle. Accordingly, DESC seeks authorization to defer as a regulatory asset the depreciation expense incurred by DESC associated with the installation of AMI until recovery of such amounts is reflected within DESC's retail electric base rates. DESC has commenced a comprehensive depreciation study related to its electric and gas operations. AMI will be an area of focus in the study and an appropriate annual depreciation accrual rate for AMI will be established as part of the study. The actual rate will be determined on specific facts and circumstances, but the Company currently expects the annual depreciation rate to range from 7% - 10%.

8. DESC will incur incremental property taxes associated with this investment. Although the incremental property taxes will decrease over time as AMI assets are depreciated, DESC estimates the initial additional annual property taxes to be approximately $3 million when the project is fully implemented. These additional property taxes are also not reflected in DESC's existing base rates. Accordingly, DESC seeks authorization to defer, as a regulatory asset, the incremental property tax expense incurred by DESC associated with the installation of AMI until recovery of such amounts is reflected within DESC's retail electric base rates.

9. DESC will also incur hosting software implementation costs associated with the AMI network that will be capitalized under GAAP and amortized to expense over the term of the hosting arrangement. These costs represent costs incurred by DESC to integrate the hosting arrangement with on premise software, coding, configuring and customizing the software. Upon full implementation, DESC anticipates having incurred capitalizable hosting software implementation costs of approximately $8 million that would be amortized ratably (straight-line) over the term of the hosting agreement. This amortization would represent an expense for DESC that currently is not reflected in DESC's existing base rates. Accordingly, DESC seeks authorization to defer, as a regulatory asset, the incremental amortization incurred by DESC associated with the implementation of hosting software until recovery of such amounts is reflected within DESC's retail electric base rates.

10. The installation of AMI will result in the existing meters being retired before they are fully depreciated. Therefore, in accordance with the Federal Energy Regulatory Commission's Uniform System of Accounts, DESC seeks authorization to reclassify the carrying value of the existing electric meters being replaced to an unrecovered plant regulatory asset account upon their retirement. Since the existing meters represent a necessary and prudent investment used to provide service to customers, DESC also requests that the balance in the unrecovered plant regulatory asset be included in the

Company's retail electric rate base, consistent with the current treatment for this investment. Further, DESC seeks authorization to amortize the unrecovered plant regulatory asset account over the estimated composite remaining lives of the replaced meters. The annual amortization level will be determined as part of the comprehensive electric depreciation study referred to above. As of May 31, 2019, the estimated carrying value of the existing electric meters being replaced was approximately $59 million. However, as part of the comprehensive depreciation study, the carrying value of the existing meters will be refined. Also, the implementation of the AMI meters is being phased over several years. Therefore, the actual carrying value reclassified to the unrecovered plant regulatory asset account will not be known until the implementation is complete.

11. In order to capture the benefits and efficiencies, the installation of electric AMI will necessitate the replacement of approximately 331,000 ERT devices, at a cost of approximately $31 million, on existing gas Automatic Meter Reading ("AMR") technology meters located within the Company's combination electric and gas service territory. There are significant benefits to the Company for AMI gas meters. The current ERT devices installed in its gas AMR meters have a battery life of 20 years. Many of these ERT devices are due for replacement beginning in 2022. DESC believes it is prudent to install gas ERT devices compatible with the AMI network with the installation of electric AMI in its combination electric and gas service territory. The gas meters can utilize the electric AMI network and eliminate the need for truck rolls to read the gas meters. In addition, the Company expects to realize similar efficiencies as expected in its electric business such as lower contact center volume, enhanced employee and customer safety, and theft detection through tamper alerts and analytics. Gas customers can also enjoy the benefits of taking greater control over their gas usage.

12. The ERT devices being replaced will be retired before they are fully depreciated. Therefore, DESC seeks authorization to reclassify the carrying value of the existing ERT devices being

replaced to a gas unrecovered plant regulatory asset account upon their retirement. Since the existing ERT devices represent a necessary and prudent investment used to provide service to customers, DESC also requests that the balance in the unrecovered plant regulatory asset be included in the Company's gas distribution operations rate base, consistent with the current treatment for this investment. Further, DESC seeks authorization to amortize the unrecovered plant regulatory asset account over the estimated composite remaining lives of the replaced ERT devices. The annual amortization level will be determined as part of a comprehensive gas depreciation study referred to above. As of May 31, 2019, the estimated carrying value of the existing ERT devices being replaced was approximately $9 million. However, as part of the comprehensive depreciation study, the carrying value of the existing ERT devices will be refined. Also, the replacement of the ERT devices is being phased over several years. Therefore, the actual carrying value reclassified to the unrecovered plant regulatory asset account will not be known until the implementation is complete.

WHEREFORE, having set forth its Petition, DESC respectfully requests that the Commission issue an order authorizing DESC to (i) defer as a regulatory asset the incremental depreciation expense, property taxes and amortization of implementation costs of associated software incurred by DESC in connection with the installation of AMI for its retail electric customers, (ii) record carrying costs on the balance in the deferred cost regulatory asset at its embedded cost of long-term debt, (iii) reclassify the carrying value of the existing electric meters being replaced to an electric unrecovered plant regulatory asset account, to be included in the Company's rate base consistent with the current treatment for this investment, upon their retirement, (iv) reclassify the carrying value of the existing gas meter ERT devices being replaced to a gas unrecovered plant regulatory asset account, to be included in the Company's rate base consistent with the current treatment for this investment, upon their retirement, (v) amortize the unrecovered plant regulatory asset accounts over the estimated composite remaining lives of the replaced meters and ERT devices, respectively, and (vi) granting such other and further relief as the Commission feels is just and proper.

Respectfully submitted,

Matthew W. Gissendanner

K. Chad Burgess, Esquire
Matthew W. Gissendanner, Esquire
Dominion Energy Southeast Services, Inc.
Mail Code C222
220 Operation Way
Cayce, South Carolina 29033
Telephone: 803-217-8141 (KCB)
803-217-5359 (MWG)
Facsimile: 803-217-7931
chad.burgess@scana.com
matthew.gissendanner@scana.com

Attorneys for Petitioner
Dominion Energy South Carolina, Inc.

Cayce, South Carolina
July 3, 2019